

Message Text

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ACTION EUR-12

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TAGS: EFIN, IT

SUBJECT: PRESS RESUMES INTEREST AS IMF-ITALIAN STANDBY
NEGOTIATIONS NEAR END

1. SUMMARY: ECONOMIC NEWS REAPPEARS ON FRONT PAGES
OF DAILY PRESS AS IMF TEAM AND ITALIANS ENTER FINAL
STAGES OF NEGOTIATIONS. MAJOR POINTS OF INTEREST
APPEARING IN FREQUENTLY WELL-INFORMED PRESS SPECULATION
ARE: ITALIAN COMMITMENT TO (A) RESPECT CASH BUDGET DEFICIT
CEILING FOR TREASURY OF LIRE 9,800 BILLION AND A HIGHER CEILING
OF LIRE 15,000 BILLION FOR THE PUBLIC SECTOR DEFICIT IN THE
BROADER DEFINITION; (B) SLOW PUBLIC EXPENDITURE GROWTH
RATE TO EQUAL NOMINAL GROWTH RATE OF GROSS DOMESTIC PRODUCT;
(C) LIMIT EXPANSION OF DOMESTIC CREDIT IN 1977 TO LIRE 30,000
BILLION, WITH HALF OF CREDIT RESERVED TO PRIVATE SECTOR;
AND (D) TAKE FURTHER UNDEFINED MEASURES TO REDUCE COST OF
LABOR GROWTH RATE TO BELOW 16 PERCENT RATE FORECAST WITH PRESENT
MEASURES. IN RETURN, IMF SHOULD APPROVE STANDBY ARRANGEMENT
OVER A PERIOD OF TWO YEARS WITH FUNDS MADE AVAILABLE IN A
SERIES OF TRANCHES, THE FIRST OF WHICH WOULD BE FOR \$100
MILLION. END SUMMARY.

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2. WITH THE RETURN OF TREASMIN STAMMATI ON MARCH 15 FROM EC
FINANCE MINISTER'S MEETING IN BRUSSELS, TALKS RESUMED
WITH IMF DELEGATION TO PUT FINISHING TOUCHES ON PROGRAM TO BE
EMBODIED IN LETTER OF INTENT. PRESS INTEREST IN THE NEGOTIATIONS
HAS BEEN OVERSHADOWED IN THE PAST WEEK BY LARGESCALE DISORDERS
IN ROME, BOLOGNA AND OTHER MAJOR CITIES GENERATED BY STUDENT

AND OTHER EXTREMISTS. ALSO, THE NEGOTIATORS THEMSELVES HAD RETREATED FROM PUBLIC VIEW WHILE THE IMF TEAM STUDIED AND EVALUATED THE RESULTS OF THE FIRST ROUND OF CONSULTATIONS. A STICKING POINT HAS BEEN THE GOVERNMENT'S RECENT ADMISSION THAT LIRE 1,000 BILLION OF THE NEW REVENUES FROM THE INCREASED VALUEADDED TAX AND PETROLEUM MANUFACTURING TAX WOULD BE DIRECTED TOWARD RECENTLY AGREED WAGE INCREASES FOR PUBLIC EMPLOYEES RATHER THAN THE SECOND STAGE OF FISCALIZATION OF EMPLOYER SOCIAL INSURANCE COSTS. THIS HAS CAUSED SOME CONSTERNATION IN IMF DELEGATION THAT COST OF LABOR REDUCTION MEASURES WOULD NOT REACH TO JANUARY 1978 AS ORIGINALLY ENVISAGED BUT CEASE IN JUNE 1977. THE IMF IS ALLEGEDLY SEEKING CLARIFICATION OF THIS POINT BEFORE NEGOTIATIONS CAN BE CONCLUDED.

3. ACCORDING TO THE PRESS, THE SHAPE OF THE PROGRAM WHICH WILL BE FINALLY INCLUDED IN THE LETTER OF INTENT WILL BE CENTERED ON FOUR PROVISIONS. FIRST OF THESE IS THE LIRE 9,800 BILLION CASH BUDGET DEFICIT CEILING FOR TREASURY AND THE HIGHER CEILING OF LIRE 15,000 BILLION FOR THE BROADER CONCEPT OF THE PUBLIC SECTOR DEFICIT. THIS PRESUMABLY ALLOWS ROOM FOR THE GOVERNMENT TO PROVIDE SOME FINANCING IN AREA OF PUBLIC HEALTH AND HOSPITAL DEBT, YOUTH EMPLOYMENT AND OTHER POLITICAL OBLIGATIONS THE GOVERNMENT HAS INCURRED.

4. SECONDLY, ATTENTION HAS ALSO FOCUSED ON THE EXCESSIVE GROWTH RATE OF PUBLIC EXPENDITURES AND MEANS TO REDUCE THAT GROWTH RATE AS AN ALTERNATIVE TO FURTHER INCREASE IN REVENUES AND DEPRESSION OF DEMAND. THIS IS ALSO A POINT OF CONCERN
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TO THE EC, AND BOTH THE EC AND IMF ARE PRESSING STRONGLY FOR A RATE OF GROWTH IN PUBLIC SPENDING THAT WOULD NOT EXCEED NOMINAL GROWTH RATE OF GROSS DOMESTIC PRODUCT. THE FUND IS APPARENTLY REQUESTING THAT THERE BE NO NEW MAJOR EXPENDITURES PROGRAMS IN 1977 AND THAT IN 1978 PUBLIC EXPENDITURE BE CUT BY LIRE 3,000 BILLION. PRESS REPORTS THAT EC FEELS THAT PUBLIC EXPENDITURE GROWTH RATE MUST BE REDUCED FROM PRESENT 25-30 PERCENT TO AT LEAST 20 PERCENT.

5. A THIRD CONCERN IS THAT OVERALL DOMESTIC CREDIT CEILING FOR 1977 NOT EXCEED 30,000 BILLION LIRE, WITH HALF OF THAT CREDIT RESERVED TO THE PRIVATE SECTOR.

6. FINALLY, THE SUBJECT OF THE COST OF LABOR WILL BE ADDRESSED AT SOME LENGTH, BUT ACKNOWLEDGING THAT REDUCTION OF THE GROWTH OF LABOR COSTS TO 16 PERCENT IS ONLY A FIRST STEP IN BRINGING LABOR COSTS MORE IN LINE WITH OTHER COUNTRIES OF THE INDUSTRIALIZED WEST.

7. MOST PRESS REPORTS ASSUME THAT UPON ACCEPTANCE
OF THE "LETTER OF INTENT," THE FUND WILL APPROVE A
STANDBY OF \$530 MILLION, TRANCHED OVER TWO YEARS WITH THE
FIRST TRANCHE AMOUNTING TO \$100 MILLION. THE IMF DELEGATION
IS EXPECTED TO LEAVE BY THE END OF THE CURRENT WEEK AND APPROVAL
OF THE STANDBY TO COME BY THE END OF MARCH.BEAUDRY

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